

Message Text

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ACTION EA-12

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AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03
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CTME-00 AID-05 SS-15 STR-05 ITC-01 TRSE-00 PRS-01
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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 3919

C O N F I D E N T I A L SECTION 1 OF 3 TOKYO 19885

C O R R E C T E D C O P Y (TEXT GARBLED PARA 1, SUB-PARA 2
THIRD PARAGRAPH LINES 6 AND 7)

E.O. 11652: GDS

TAGS: ETRD, JA, US

SUBJECT: USHIBA RESPONSE TO U.S. TRADE REQUEST

1. FOLLOWING IS TEXT OF JAPANESE RESPONSE TO OUR
TRADE PROPOSALS PRESENTED DEC. 20. THEY WERE HANDED
TO AMBASSADOR EVENING OF DEC. 28 IN MEETING WITH
USHIBA AND AGRICULTURE MINISTER. GOJ INTENDS TO TELL
PRESS THAT REPLY NOT YET MADE AND ASKS US TO DO LIKEWISE.

QUOTE

JAPANESE RESPONSE OF DECEMBER 21, 1977

1. JAPAN'S BALANCE OF PAYMENTS

(1) THE GOVERNMENT OF JAPAN RECOGNIZES THAT, UNDER
THE PRESENT INTERNATIONAL ECONOMIC SITUATION, ACCUMULATION
OF A LARGE CURRENT ACCOUNT SURPLUS BY ANY ONE COUNTRY IS
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NOT APPROPRIATE. IN THIS CONTEXT, THE GOVERNMENT DEEMS
THAT THE PERSISTENCE OF JAPAN'S LARGE CURRENT ACCOUNT SURPLUS
SUCH AS PRESENTLY EXISTS IS UNDESIRABLE.

THEREFORE, THE GOVERNMENT OF JAPAN IS DETERMINED TO
MAKE BEST EFFORTS TO REALIZE A MARKED DIMINUTION OF THE
PRESENT LARGE CURRENT ACCOUNT SURPLUS AS QUICKLY AS POSSIBLE.

(2) THE GOVERNMENT OF JAPAN IS RESOLVED TO EXERT ITS BEST ENDEAVORS THROUGH MEASURES TO EXPAND THE ECONOMY IN ORDER TO ACHIEVE A REAL GROWTH OF AROUND 7 PERCENT IN FY 1978. THESE MEASURES WILL BE PRIMARILY FOR STIMULATING DOMESTIC DEMAND. THIS IS AN EXTRAORDINARILY HIGH GROWTH RATE IN THE PRESENT INTERNATIONAL COMMUNITY.

INTER ALIA, IN ORDER TO CONTRIBUTE TO THE SUSTAINED EXPANSION OF DOMESTIC DEMAND, THE GOVERNMENT OF JAPAN WILL TAKE INTO PERSPECTIVE THE FIFTEEN MONTHS FROM JANUARY 1978 WITH A VIEW TO SECURING UNINTERRUPTED CONTINUATION OF PUBLIC WORKS PROGRAMS AND OTHER FISCAL MEASURES. FOR THIS PURPOSE, A SECOND SUPPLEMENTARY BUDGET FOR FY 1977 WILL BE INTRODUCED AND THIS WILL BE FOLLOWED BY A POSITIVE MANAGEMENT OF FISCAL POLICY IN AN EXPANSIONARY MANNER FOR FY 1978.

THE FISCAL MANAGEMENT FOR FY 1978 WILL BE AN EXTRAORDINARY AND EXCEPTIONAL ONE BASED UPON THE CONVICTION THAT PUBLIC FINANCE NEED TO PLAY A LEADING ROLE IN THE STIMULATION OF DOMESTIC DEMAND. THUS THE BUDGET FOR FY 1978 WILL BE SUCH THAT, THE GENERAL ACCOUNT BUDGET WILL BE INCREASED BY 20.3 PERCENT COMPARED TO THAT FOR FY 1977, AMONG WHICH THE INCREASE IN THE INVESTMENT EXPENDITURES WILL BE IN THE ORDER OF 31 PERCENT, AND THAT IN THE PUBLIC WORKS RELATED EXPENDITURES WILL BE AT AN
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UNPRECEDENTED RATE OF 34.5 /1/. ON THE REVUNUE SIDE, THE RATIO OF DEPENDENCE ON FINANCING BY BOND ISSUANCE WILL UNDER THE NORMAL METHOD BY 37 PERCENT, AND WILL BE 32 PERCENT EVEN AFTER TAKING SPECIAL MEASURES IN THE FIELD OF REVENUE.

IN ADDITION SUCH FISCAL MEASURES AS TAX REDUCTION FOR CERTAIN INVESTMENTS, AND PROMOTION OF POWER PLANT CONSTRUCTION AND OF PRIVATE RESIDENTIAL INVESTMENT WILL BE TAKEN./2/.

THE GOVERNMENT OF JAPAN BELIEVES THAT THE FOREGOING FISCAL MEASURES FOR ACHIEVING THE 7 PERCENT REAL GROWTH RATE WILL CONTRIBUTE TO THE RECOVERY OF PRIVATE SECTOR'S CONFIDENCE OVER THE FUTURE.

(3) AS A RESULT OF THE ABOVE MENTIONED ECONOMIC MANAGEMENT, TOGETHER WITH THE EFFECTS OF THE SUDDEN AND SHARP APPRECIATION OF THE YEN IN RECENT MONTHS AS WELL AS IMPORT PROMOTION MEASURES, THE OUTLOOK ON JAPAN'S CURRENT ACCOUNT FOR THE FY 1978 IS FOR CONSIDERABLE DIMINUTION. (AT THE PRESENT ESTIMATE, ITS SIZE IS EXPECTED TO BE REDUCED TO ROUGHLY AROUND SIX BILLION DOLLARS.) FOR FY

1979 AND THEREAFTER, UNDER THE WORLD ECONOMIC SITUATION WHERE THE JUGE SURPLUS OF OPEC COUNTRIES CONTINUES TO EXIST, BEST EFFORTS WILL BE MADE WITH A VIEW TO FURTHER REDUCING JAPAN'S CURRENT ACCOUNT SURPLUS. IF CURRENT ACCOUNT DEFICIT OCCURS IN SUCH A PROCESS, THE GOVERNMENT OF JAPAN IS PREPARED TO ACCEPT IT.

(4) THE GOVERNMENT OF JAPAN AGREES TO CONDUCT EXCHANGES OF VIEWS FROM TIME TO TIME AT APPROPRIATE INTERNATIONAL FORUMS OR BILATERALLY WITH THE UNITED STATES GOVERNMENT ON SUCH MATTERS AS THE RESPECTIVE ECONOMIC SITUATION AND OUTLOOK ON THE FUTURE BALANCE OF PAYMENTS INCLUDING CURRENT ACCOUNT BALANCE OF BOTH COUNTRIES. IT IS THE INTENTION OF THE GOVERNMENT OF JAPAN TO CONTINUE CONFIDENTIAL

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TO MANAGE THE ECONOMY IN AN APPROPRIATE MANNER IN RESPONSE TO DEVELOPMENTS IN THE ECONOMIC SITUATION.

2. ROLE OF THE UNITED STATES IN WORLD ECONOMY

AS STATED ABOVE, THE GOVERNMENT OF JAPAN, FOR ITS PART, IS DETERMINED TO DO ITS UTMOST TO REGAIN THE EXTERNAL EQUILIBRIUM. AT THE SAME TIME, IT GOES WITHOUT SAYING THAT THE FUTURE OF JAPAN'S INTERNATIONAL BALANCE OF PAYMENTS IS CLOSELY LINKED WITH THE DEVELOPMENTS IN THE WORLD ECONOMY.

THE GOVERNMENT OF JAPAN, THEREFORE, CONSIDERS IT QUITE IMPORTANT THAT THE UNITED STATES, WITH ITS SIGNIFICANT ROLE IN WORLD ECONOMY, ALSO MAKE EFFORTS, THROUGH APPROPRIATE ECONOMIC MANAGEMENT, TO REDUCE ITS PRESENT CURRENT ACCOUNT DEFICIT WITH A VIEW TO AVOIDING LARGE AND PERSISTENT DEFICIT AS WELL AS TO MAINTAIN THE CONFIDENCE IN THE DOLLAR. IN PARTICULAR, THE GOVERNMENT OF JAPAN HOPES THAT THE UNITED STATES WOULD COPE WITH THE PROBLEM OF ITS INCREASING PETROLEUM IMPORTS BY IMPLEMENTING AN EFFECTIVE ENERGY POLICY. IN THIS CONTEXT, THE GOVERNMENT OF JAPAN WELCOMES THE MEASURES ANNOUNCED BY PRESIDENT CARTER ON DECEMBER 21, AND HOPES THAT APPROPRIATE MEASURES WILL BE FURTHER PURSUED.

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 3920

C O N F I D E N T I A L SECTION 2 OF 3 TOKYO 19885

3. MULTILATERAL TRADE NEGOTIATIONS (INCLUDING TARIFFS)

IN THE LIGHT OF THE CURRENT WORLD ECONOMIC SITUATION,
THE GOVERNMENT OF JAPAN DEEMS IT MOST IMPORTANT AND URGENT
TO CONCLUDE THE ON-GOING TOKYO ROUND NEGOTIATIONS PROMPTLY
AND SUCCESSFULLY. AS EXPRESSED IN OUR PREVIOUS PROPOSAL,
THE GOVERNMENT OF JAPAN IS DETERMINED TO MAKE POSITIVE
CONTRIBUTIONS TOWARDS THIS OBJECTIVE.

IN THIS REGARD, THE GOVERNMENT OF JAPAN WILL TABLE
ITS OFFER IN THE WEEK OF JANUARY 15 AND IS PREPARED TO
PARTICIPATE IN AN INFORMAL MEETING AT MINISTERIAL LEVEL TO
BE HELD IN GNEVA ON THE OCCASION OF THE TABLING OF OFFERS.

THE GOVERNMENT OF JAPAN WISHES TO STRESS THE IMPORTANCE OF THE
CLOSEST AND COOPERATIVE CONTACT AND COORDINATION EITHER IN GENEVA,
WASHINGTON OR TOKYO, AMONG NEGOTIATING PARTNERS, IN PARTICULAR
THE UNITED STATES, EC AND OTHER MAJOR ONES, FOR THE SUCCESSFUL
CONCLUSION OF THE NEGOTIATIONS.

AS REGARDS THE TARIFF REDUCTION WITHIN THE FRAMEWORK OF
THE MULTILATERAL TRADE NEGOTIATIONS, THE GOVERNMENT OF JAPAN
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WILL TABLE ITS OFFERS AND ENTER INTO NEGOTIATIONS ALONG THE
LINES STATED IN OUR PREVIOUS PROPOSAL. IN THE COURSE OF SUCH
PROCESS THE GOVERNMENT OF JAPAN WILL GIVE MOST CAREFUL
CONSIDERATION TO THE PRODUCTS OF INTEREST TO THE UNITED
STATES AND OTHER COUNTRIES.

4. EXPANSION OF QUOTAS, ETC. -(DESCRIBED IN SEPTTEL)

5. EXPANSION OF IMPORT CREDITS

(1) AS A RESULT OF THE SPECIAL EMPHASIS PLACED ON THE EXPANSION OF CREDIT FACILITIES FOR IMPORT AND INVESTMENT OF THE EXPORT-IMPORT BANK OF JAPAN IN THE FISCAL INVESTMENT AND FINANCING PROGRAM FOR FY 1978, THE CREDIT FACILITIES FOR IMPORT AND INVESTMENT FOR FY 1978 HAS BEEN INCREASED TO 258 BILLION YEN BY ABOUT 17 PERCENT, A CONSIDERABLY LARGE INCREASE FROM 220 BILLION YEN FOR THIS FISCAL YEAR.

(2) IN ADDITION, ON DECEMBER 20, THERE WAS NEWLY ESTABLISHED IN THE EXPORT-IMPORT BANK A FACILITY FOR THE FOREIGN CURRENCY LOAN FOR EMERGENCY IMPORTS (WHICH IS TENTATIVELY ENVISIONED TO AMOUNT TO AROUND 440 MILLION DOLLARS), THE MAIN ELEMENTS OF WHICH ARE AS FOLLOWS:

(A) THE EXPORT-IMPORT BANK FOR JAPAN PROVIDES LOANS IN FOREIGN CURRENCY TO THOSE WHO WILL UNDERTAKE EMERGENCY IMPORTS OF IMPORTANT GOODS IN ORDER FOR THEM TO AVOID EXCHANGE RATE RISKS AND IN SUCH FAVORABLE TERMS AS FOLLOWS:

I) INTEREST RATE: 4.75 PERCENT (VARIABLE RATE)

(II) REPAYMENT PERIOD: MAXIMUM THREE YEARS

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(B) AS IMPORTANT GOODS COVERED BY THIS LOAN, THERE HAVE BEEN SELECTED METAL ORE, METALS, PETROLEUM, PETROLEUM GAS, AND OTHER RAW MATERIALS AND SUCH EQUIPMENTS AS ARE URGENTLY NEEDED FOR THE SOUND DEVELOPMENT OF THE NATIONAL ECONOMY; ADDITIONS CAN BE MADE IF NECESSARY.

(C) IT SHOULD BE NOTED IN THIS CONNECTION THAT THIS SYSTEM IS SPECIAL IN THAT IT PERMITS LENDING AND BORROWING IN FOREIGN CURRENCY AMONG RESIDENTS, AND THEREFORE IS EFFECTIVE ONLY FOR SIX-MONTH PERIOD IN ORDER TO STIMULATE IMPORTS DURING THE FIRST HALF OF 1978, WHEN IMPORT DEMAND IS EXPECTED TO BE STILL SLUGGISH.

(3) TO SUPPORT AN INCREASE IN IMPORTS, THE BANK OF JAPAN HAS DETERMINED TO INCREASE THE VOLUME OF CREDIT AVAILABLE FOR ITS SYSTEM OF THE IMPORT FINANCING LOAN FROM DECEMBER 19.

(A) SIZE OF INCREASE: AN INCREASE OF 270 BILLION YEN WILL BE MADE OVER THE PERIOD OF THREE MONTHS.

(B) CREDIT TERMS: OFFICIAL DISCOUNT RATE

6. GOVERNMENT PROCUREMENT

(1) THE GOVERNMENT OF JAPAN WILL MAKE PUBLIC IN THE FORM OF A CABINET DECISION THE POLICY LINE WHICH WAS ALREADY COMMUNICATED TO THE UNITED STATES. BY WAY OF MAKING THE SPIRIT OF SUCH A CABINET DECISION KNOWN TO ALL PARTIES CONCERNED, IT IS ALSO CONSIDERING THE ISSUANCE OF A NOTIFICATION ON PROCEDURAL IMPROVEMENTS FOR THE PURPOSE OF ENSURING FOR FOREIGN SUPPLIERS AND GOODS AN INCREASED OPPORTUNITY TO PARTICIPATE IN BIDDING PROCEDURES. SUCH NOTIFICATIONS, WHEN ISSUED, WILL BE MADE PUBLIC WITHOUT DELAY.

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A GUIDANCE ALONG THE LINES OF THE CABINET DECISION AND NOTIFICATIONS WILL BE GIVEN TO GOVERNMENT AFFILIATED ENTITIES BY THE DEPARTMENTS AND AGENCIES IN CHARGE.

(2) THE TRADE FACILITATION COMMITTEE WILL BE ACTIVELY UTILIZED AS A FORUM MOST EFFECTIVE FOR REVIEWING CONCRETE PROBLEMS INCLUDING THOSE CONCERNING SPECIFIC PRODUCTS FACED BY AMERICAN SUPPLIERS WITH RESPECT TO GOVERNMENT PROCUREMENT.

7. EXPORT CREDITS

(1) THE GOVERNMENT OF JAPAN WISHES TO EXPRESS ITS SUPPORT IN PRINCIPLE OF THE PROPOSAL OF THE UNITED STATES AT THE DECEMBER MEETING OF THE CONSENSUS PARTICIPANTS, AND INTENDS TO PLAY AN ACTIVE ROLE IN THE JANUARY MEETING FOR REACHING AN AGREEMENT.

(2) IN THE FISCAL INVESTMENT AND FINANCING PROGRAM FOR FY 1978, THE TOTAL VOLUME OF OFFICIAL EXPORT CREDITS WILL AMOUNT TO 958 BILLION YEN, ONLY 1 PERCENT INCREASE FROM 948 BILLION YEN FOR THE PREVIOUS FISCAL YEAR.

THUS ITS RATE OF INCREASE WILL BE MARKEDLY REDUCED FROM THAT IN THE PREVIOUS YEARS. IT SHOULD ALSO BE STRESSED THAT THIS RATE OF INCREASE IS GREATLY LOWER THAN THAT OF THE IMPORT FINANCING PROGRAM FOR FY 1978.

8. NON-TARIFF MEASURES

(1) AS STATED IN THE EIGHT POINT PROPOSAL, THE GOVERNMENT OF JAPAN WILL ACTIVELY CONSIDER WAYS TO IMPROVE AND SIMPLIFY INSPECTION, TESTING AND OTHER PROCEDURES FOR
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IMPORTED GOODS. SUCH A POSTURE IS CLEARLY DEMONSTRATED BY JAPAN'S EFFORTS TO PERMIT IMPORT OF AMERICAN CHERRIES AS WELL AS THE RESULTS ACHIEVED BY THE JAPAN-U.S. CONSULTATION ON TYPE APPROVAL FOR AUTOMOBILES. IN THIS AREA, THE GOVERNMENT OF JAPAN CONSIDERS IT MOST EFFECTIVE TO TAKE UP SPECIFIC PROBLEMS REGARDING VARIOUS MEASURES CONCERNED. IN THIS VEIN, SUCH FORA AS THE TRADE FACILITATION COMMITTEE WILL BE ACTIVELY UTILIZED AT SPECIFIC PROPOSALS OF THE UNITED STATES.

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 3921

C O N F I D E N T I A L SECTION 3 OF 3 TOKYO 19885

(2) IN THIS CONNECTION, THE GOVERNMENT OF JAPAN CONSIDERS IT MOST NECESSARY TO WORK TOWARDS THE INTERNATIONAL COORDINATION IN THIS AREA PRIMARILY OF PROCEDURES THROUGH REACHING AN AGREEMENT ON A STANDARD CODE AT MTN. THE GOVERNMENT OF JAPAN INTENDS TO MAKE FURTHER EFFROTS TO THAT END.

9. LOGS AND LUMBER

THE GOVERNMENT OF JAPAN IS PREPARED TO DISCUSS THIS PROBLEM IN A SPECIAL STUDY GROUP.

10. ECONOMIC COOPERATION

(1) UNTYING OF ODA

AS HAS BEEN ALREADY COMMUNICATED TO THE UNITED STATES GOVERNMENT, IT IS JAPAN'S BASIC POLICY TO GENERALLY UNITE ITS FINANCIAL COOPERATION, AND THE GOVERNMENT OF JAPAN WILL ACTIVELY PURSUE THIS POLICY.

IN ADDITION TO GENERAL UNTYING OF THE CONTRIBUTIONS TO
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THE INTERNATIONAL ORGANIZATIONS, GENERAL UNTYING WILL BE PURSUED WITH REGARD TO BILATERAL OFFICIAL LOANS WITH PARTICULAR EMPHASIS ON SUCH PROJECTS AS WILL BE CO-FINANCED BY SUCH INTERNATIONAL FINANCIAL ORGANIZATIONS AS THE IBRD AND THE ASIAN DEVELOPMENT BANK.

WHILE JAPAN'S AID SYSTEM MAKES IT DIFFICULT TO PROVIDE AN ESTIMATE AS TO THE MAGNITUDE OF ITS OFFICIAL ASSISTANCE TO BE GENERALLY UNTIED, EFFORTS WILL BE MADE TO PROGRESSIVELY UNTY A SUBSTANTIAL PORTION OF JAPAN'S BILATERAL LOANS.

(2) AID BUDGET FOR FY 1978

THE GOVERNMENT OF JAPAN IS NOW IN THE PROCESS OF FORMULATING ITS AID BUDGET OFR 1978, AND IS PREPARED TO PROVIDE RELATED INFORMATION AS SOON AS IT IS AVAILABLE.

IT IS TO BE ADDED THAT ANY INFORMATION ON THE AID BUDGET AND RELEVANT AID POLICIES NOW UNDER REVIEW OF THE UNITED STATES GOVERNMENT FOR FY 1979 WILL BE WELCOME.

11. CONCLUSION

THE POINTS STATED ABOVE, TOGETHER WITH THE EIGHT POINT PROPOSALS MINISTER USHIBA PRESENTED AND OTHER RELATED MATTERS, WILL BE MADE PUBLIC AT THE OCCASION OF AMBASSADOR STRAUSS'S VISIT TO JAPAN AS A SERIES OF EXTERNAL AND DOMESTIC ECONOMIC MEASURES, WHICH HAVE BEEN OR ARE TO BE TAKEN BY THE GOVERNMENT OF JAPAN UNDER THE PRESENT ECONOMIC CIRCUMSTANCES BOTH EXTERNAL AND DOMESTIC.

THE GOVERNMENT OF JAPAN IS OF THE VIEW THAT, ON THE BASIS OF THE ADOPTION AND DETERMINATION OF THESE MEASURES,
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A SERIES OF CONSULTATIONS BETWEEN JAPAN AND THE UNITED STATES, WHICH BEGAN AT THE SUBCABINET TALKS LAST SEPTEMBER, SHOULD BE CONCLUDED AT THE TIME OF AMBASSADOR STRAUSS'S VISIT TO JAPAN.

IT SHOULD BE NOTED, HOWEVER, THAT THE CONCLUSION OF THE RECENT INTENSIVE CONSULTATIONS SHOULD BY NO MEANS IMPLY ANY CHANGE IN ONGOING PROCESS OF CLOSE CONSULTATION AND COOPERATION BETWEEN JAPAN AND THE UNITED STATES AT ALL LEVELS ON VARIOUS PROBLEMS OF MUTUAL INTEREST.

THE GOVERNMENT OF JAPAN CONSIDERS IT MOST IMPORTANT AND NECESSARY TO MAINTAIN DIALOGUE AT EVERY OPPORTUNITY BILATERALLY AND IN SUCH MULTILATERAL FORA AS THE MULTILATERAL TRADE NEGOTIATIONS WHERE JAPAN AND THE UNITED STATES ARE EXPECTED TO PLAY LEADING ROLES.

NOTES:

1. THOSE RELATED TO DISASTER RELIEF EXPENDITURES ARE EXCLUDED.

2. THESE MEASURES, IN MORE CONCRETE TERMS, ARE AS FOLLOWS:

(1) PROMOTION OF PRIVATE FIXED INVESTMENT; WITH RESPECT TO ACQUISITION OF SPECIFIC MACHINERY OF EQUIPMENT, TAX ALLOWANCE OF 10 PERCENT OF PURCHASING PRICE OF SUCH MACHINERY EQUIPMENT WILL BE INTRODUCED AS A SPECIAL AND TEMPORARY MEASURE.

(2) PROMOTION OF POWER PLANT CONSTRUCTION; SUBSTANTIAL INCREASE WILL BE MADE IN THE SUBSIDIES FOR THE PROGRAM OF ACCELERATING THE SECURING OF ELECTRIC POWER PLANT SITES.

(3) PROMOTION OF PRIVATE RESIDENTIAL INVESTMENT;
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SUCH MEASURES AS EXPANSION OF THE LOAN CAPACITY OF THE HOUSING LOAN CORPORATION WILL BE TAKEN.

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Message Attributes

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